



COUNCILMEMBER CARL DEMaIO

FIFTH DISTRICT
CITY OF SAN DIEGO

MEMORANDUM

DATE: December 7, 2009

TO: Honorable Mayor and City Councilmembers

FROM: Councilmember Carl DeMaio *Carl DeMaio*

RE: Budget Priorities for FY 2010/2011

As the City of San Diego confronts an exceptionally difficult budget deficit, the Mayor and City Council have an historic opportunity to fundamentally transform how the city manages its finances. I applaud the Mayor and my colleagues for being pro-active in adjusting the budget mid-year – and for fighting to soften the blow to our neighborhood services.

However, I am extremely concerned about the use of “one-time” monies and short-term fixes. As a result of those one-time moves, the City will still be living beyond its means with on-going expenditures that exceed actual revenues. As a result of these one-time fixes to plug our immediate budget hole, the deficit in FY 2012 automatically begins at \$77 Million.

Making structural reforms takes time – and in the absence of time government leaders often turn to one-time fixes. The good news about our pro-active approach is that we do have time (18 months) to replace one-time fixes with long-term, strategic reforms.

I propose that the City Council adopt a concurrent resolution with approving this budget that commits to:

- a) Replacing at least half the one-time monies through structural reforms (See Item 1).
- b) Replacing the other half of one-time monies with pension and retiree healthcare reforms (See Item 2).

Should the city not achieve progress on these reforms, it could always fall back to the one-time fixes already outlined in the budget. However, if efficiencies and cost savings can be achieved, every single dollar saved will help reduce the FY 2012 budget deficit – and will save city residents from the prospect of deep service cuts and/or tax increases during that budget cycle.

1. Replace One-Time Monies with Savings from Structural Reforms

The Mayor should be given the authority to implement efficiency reforms – and the Independent Budget Analyst should provide a monthly report of proposed and completed implementation actions (and associated cost savings).

- **Managed Competition/Direct Outsourcing:** The Mayor should be given the authority to proceed with competitive sourcing for a number of functions – including trash collection, landfill management, auto maintenance, landscaping, printing/publishing, and information technology. Consistent with this authority, the City Council should support the Mayor in the necessary “Meet and Confer” process with our labor unions.
- **Redevelopment Funds:** I recently proposed \$63 million in General Fund savings be achieved by reprogramming redevelopment funds to cover debt service on the Convention Center and/or through the repayment of CDBG loans. The City Attorney should take the lead on reviewing all General Fund projects and Redevelopment Agency projects to determine which costs could be transferred to the Redevelopment Agency, and what actions would be necessary to do so.
- **Enhanced Marketing Partnerships:** As I proposed last May, the city should expand its marketing partnerships to generate revenues. Teamsters 911 also endorsed this concept – which is successfully used by a number of cities and counties across the country.
- **Performance Audits:** Working with Councilmember Faulconer and the City’s Audit Committee, we have committed to conducting “Performance Audits” on at least half of the city’s budget in the next 3 years. Performance Audits examine how well each city department is operating, and suggest ideas for improvement. Our City Auditor has already produced a number of performance audits that have identified millions in potential savings – we just need diligent implementation of reform ideas by the City Council and city departments.

Aggressive implementation of these and other reforms over the next 18 months can achieve millions in savings that can be used to replace much of the one-time fixes in the current budget package.

2. Reform Pension and Retiree Health Care Liabilities

On October 12, 2009 Councilmember Donna Frye and I outlined several possible pension reforms, and on December 4, 2009 I outlined additional pension reform ideas in an attempt to elaborate on options the city may have, given the stringency of applicable labor laws. In both memoranda, I requested the City Attorney provide a legal review of the options.

It has been argued that pension reform should be taken completely off the table – because pension benefits are “vested.” Following that logic would mean taxpayers would have to brace themselves for further service cuts and tax increases – all in the name of servicing debt on unsustainable pension benefits.

I believe we can and must do better than blindly accepting that fate – and have committed my office to aggressively exploring and studying all options for pension reform, including the following:

- a) reducing the pension debt through benefits reform,
- b) reducing the pension debt through reforms that achieve actuarial savings (managed competition, salary freezes, reductions-in-force, etc.)
- c) achieving savings in other parts of employee compensation to pay down accrued pension liabilities, or
- d) a combination of all of the above.

While we await a legal review, the City can proceed forward with two reforms that will produce cost savings in FY 2011 and beyond. Specifically, the City can reform two discretionary elements of our pension package.

- **SPSP Pension:** Earlier this year the Mayor and my colleagues supported and implemented budgetary elimination of SPSP with the Municipal Employees Association. However, the SPSP plan still exists for other employees represented by Local 127 and in the unclassified service. Millions can be saved by implementing this reform in the context of the labor negotiations that are about to begin on the FY 2011 labor contracts and the FY 2011 Salary Ordinance.
- **Employee Offsets:** The City of San Diego over the years has “picked up” a share of the employee’s pension contribution – in addition to paying the employer contribution rate. These costly accommodations are known as “Employee Offsets.” While the Mayor and City Council made progress in eliminating offsets for several unions this year, many city employees still do not pay their full employee contribution and the city is making up the difference. Eliminating this program entirely by FY 2012 would save approximately \$8.7 million citywide (\$5.2 million in the General Fund), using FY 2010 budgeted expenditures as a benchmark.

- **Retiree Health Care:** I strongly support reform of retiree healthcare for current city employees – and the City Council should actively monitor and provide the Mayor with input regarding labor negotiations to achieve meaningful reform in this liability.

As the City considers reforms to retiree healthcare packages for current city workers (which requires meet and confer), the City should also be pursuing reforms to packages currently provided to retirees. To ensure equity and access to adequate healthcare, the city could consider a sliding scale of health care coverage for retirees based on the pension allowance they receive (e.g. pension allowances over \$80,000-100,000 a year would pay a higher share of healthcare costs.) As the City Attorney has opined, retiree healthcare is not a vested benefit and the city has leeway for implementing reforms in this costly area. It should be noted that the City is currently funding retiree health care on a cash basis for current retirees – and any savings would have an immediate impact to the city's General Fund.

I firmly believe that additional reform options will emerge in the next year as we complete a thorough legal review of all aspects of the city's pension system. Even if no other options emerge, these three ideas can be pursued immediately to achieve savings.

3. Promote a Jobs-Friendly Environment

The best way to balance the city's budget long term is to put San Diegans back to work. The city can and must do more to foster a jobs-friendly climate in our region.

- **Reject Tax and Fee Increases:** At the top of our list should be resisting tax and fee increases – as these revenue hikes adversely impact San Diego's working families and small businesses.
- **Citizens Commission on Economic Competitiveness:** I strongly supported the formation of this commission as a thoughtful vehicle for generating ideas for creating and retaining private sector jobs. I look forward to submitting ideas to the commission and helping implement suggestions that will bolster our economy.

4. Commit to a Fiscal Recovery Reserve Account

The revenue forecast contained in the budget revision may be overly optimistic. We all hope for an economic recovery – but we should not bank on it. The City Council should continue to aggressively monitor the economy and revenue receipts to the city – and adjust spending early if revenue expectations are not met.

At the same time, if the economy does recover and the city collects revenues in excess of the forecast, we must maintain fiscal discipline.

The best way to accomplish fiscal discipline is to create a **“Fiscal Recovery Reserve Account.”** Under this reform, the city would deposit any revenues collected in excess of the forecast resulting from the 1st Quarter Budget Monitoring Report¹ into a reserve account. Half of the monies in this account would be dedicated to the City’s Reserve – up to the reserve goal outlined in Council Policy. The other half of the monies would be dedicated to currently unfunded deferred maintenance needs.

CC: City Attorney
Andrea Tevlin, Independent Budget Analyst

¹ For specific reference, see the table on page 32 of IBA Report 09-90.